



COMPENSATION BOARD

REPORT ON AUDIT FOR THE THREE-YEAR PERIOD ENDED JUNE 30, 2013

AUDIT SUMMARY

Our audit of the Compensation Board for the three-year period ending June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

–TABLE OF CONTENTS–

	<u>Pages</u>
AUDIT SUMMARY	
BOARD HIGHLIGHTS	1
FINANCIAL HIGHLIGHTS	2
INDEPENDENT AUDITOR’S REPORT	3-4
BOARD OFFICIALS	5

BOARD HIGHLIGHTS

The Compensation Board consists of the Auditor of Public Accounts and the State Tax Commissioner as ex-officio members, and one member appointed as Chairman by the Governor. The Compensation Board has responsibility for:

- Determining the state's share of Constitutional Officers' (county and city Sheriffs, Treasurers, Commissioners of the Revenue, Commonwealth's Attorneys, and Clerks of the Circuit Court) budgets and reimbursing localities for Constitutional Officers' salaries and expenses.
- Reimbursing local governments and regional jails for the state's share of holding inmates and reporting daily on jail population.
- Providing an annual report of the Courts and Commonwealth's Attorneys' collection of court fines and fees.
- Issuing an annual report of jail revenues and expenses for all local and regional jails and jail farms that receive Compensation Board funding.
- Administering the Technology Trust Fund to reimburse Clerks of the Circuit Court for automation of land records.

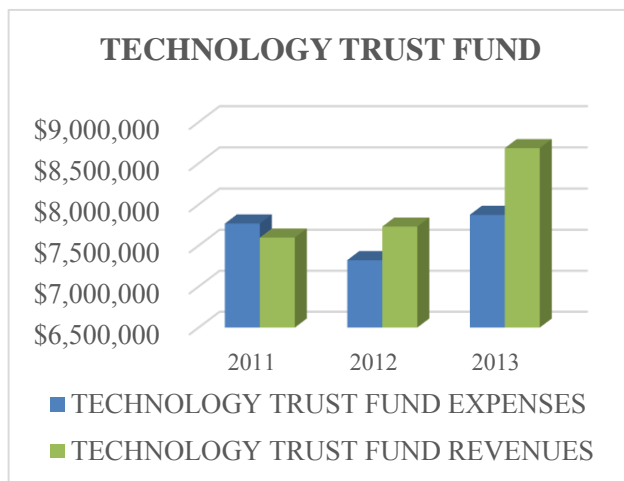
Excess Fees

Section 17.1-285 of the Code of Virginia requires that the Compensation Board calculate fees in excess of incurred costs of the Courts of Virginia. In accordance with the 2013 Virginia Acts of Assembly, the Commonwealth retains two-thirds of the excess fees collected by Courts from operations. Local Governments receive the remaining one-third. Each month, the Board performs an excess fee calculation using Circuit Court Clerks' collections and expenses for the prior month, with any resulting excess split as described above. This process relies on two key pieces of information: Court fee revenue, which is provided monthly by data transfer from the Virginia Supreme Court's Financial Management System into the Constitutional Officer Information Network automated budget and reimbursement system of the Compensation Board; and the actual payments from the Compensation Board to the Local Governments that pay the salaries and expenses for the respective courts.

Technology Trust Fund Fee

Section 17.1-279 of the Code of Virginia requires that the Compensation Board administer the Technology Trust Fund Fee. This fee is a five dollar assessment on each civil action, recorded deed instrument, and docketed judgment in the judgment lien docket book. The purpose of the trust fund is to assist Clerks of Circuit Courts in developing, updating, and implementing individual land-records' automation plans. The Compensation Board holds the fees in trust for the office that collected them, less a percentage used for the administration of the land-records' automation plans and to assist smaller Clerk's offices whose fee collections are insufficient to implement the automation plans. This process relies on the self-deposited Technology Trust Fund Fee collections by each individual Clerk's office. Unused fees carry over from year to year. An analysis of Technology Trust Fund fees and expenses is outlined in Chart A.

Chart A



Source: Commonwealth Accounting and Reporting System

FINANCIAL HIGHLIGHTS

The following tables summarize the Compensation Board's financial activity for fiscal years 2011, 2012, and 2013. General Fund appropriations accounted for 97 percent of the Compensation Board budget during the fiscal years under audit, while approximately three percent of funding is attributable to administrative fees collected. General Fund budgets and expenses have remained relatively stable over the three years as evidenced in the below charts. Actual expenses consistently fall short of the final budget due to vacancies in Constitutional Officer positions.

Analysis of Budgeted to Actual Operating Expenses

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Original Budget	\$613,870,548	\$611,247,441	\$623,206,124
Final Budget	\$610,680,796	\$602,475,965	\$614,380,058
Actual Expenses	\$597,189,371	\$599,309,842	\$609,302,923

Actual Expenses by Program

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Sheriffs' Offices and Regional Jails	\$ 394,984,739	\$ 394,538,160	\$ 402,049,596
Confinement of Inmates	51,439,866	54,661,097	55,930,950
Local Finance Directors	4,576,158	4,724,622	4,826,714
Local Commissioners of the Revenue	16,348,737	16,052,115	16,217,853
Attorneys for the Commonwealth	60,474,097	59,787,560	60,745,119
Circuit Court Clerks	47,318,497	46,570,410	47,534,956
Local Treasurers	15,444,940	14,973,797	15,058,189
Admin and Support Services	<u>6,602,337</u>	<u>8,002,081</u>	<u>6,939,546</u>
Total	<u>\$ 597,189,371</u>	<u>\$ 599,309,842</u>	<u>\$ 609,302,923</u>

Source: Commonwealth Accounting and Reporting System



Commonwealth of Virginia

Auditor of Public Accounts

Martha S. Mavredes, CPA
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

January 30, 2014

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Compensation Board** for the three-year period ending June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth Accounting and Reporting System, review the adequacy of the Compensation Board's internal controls, and test compliance with applicable laws, regulations, contracts and grant agreements.

Audit Scope and Methodology

The Compensation Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

- Payroll
- Systems access
- Transfer payments
- Excess fee payments
- Small purchase charge card expenses

We performed audit tests to determine whether the Compensation Board's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Compensation Board's operations. We tested transactions and performed analytical procedures, including budgetary analyses.

Conclusions

We found that the Compensation Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Compensation Board records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on February 6, 2014.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

DEPUTY AUDITOR OF PUBLIC ACCOUNTS

AVG/alh

COMPENSATION BOARD

Richmond, Virginia

Frank Drew, Chairman

Craig Burns, Ex Officio

Martha S. Mavredes, Ex Officio

Robyn M. de Socio, Executive Secretary